

FDIC State Profile

Spring 2006

Pennsylvania

Pennsylvania continued a steady job expansion in 2005 with gains across salary ranges.

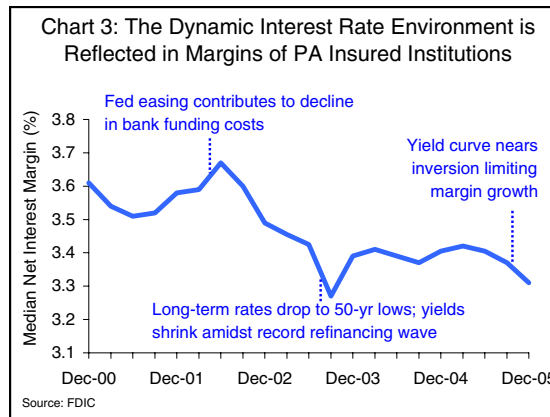
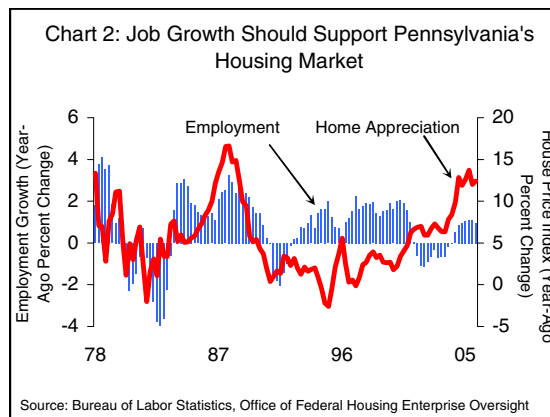
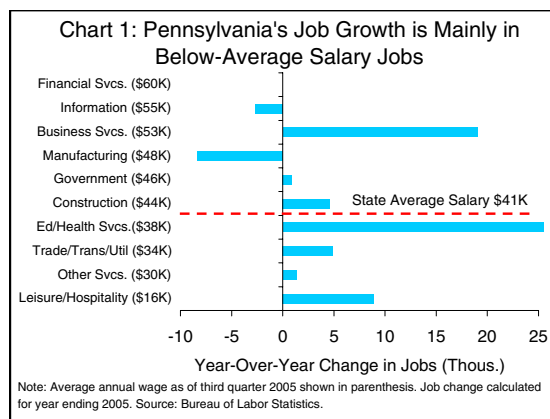
- Pennsylvania experienced a steady pace of job growth during 2005. During the fourth quarter, all of Pennsylvania's metro areas experienced positive job growth except for **Altoona** and **Williamsport**.
- Growth was strongest in the southeastern part of the state, particularly around **Allentown**, **Lancaster**, and **Lebanon**, reflecting commercial development and population in-migration. Strong job growth was also noted in **State College**, due to new jobs in health and educational services.
- Job creation in **Philadelphia** was the highest in five years, adding almost 21,000 net new jobs in 2005. Job losses in the city's manufacturing sector were offset by gains in business, health and education-related service industries.

Job gains in Pennsylvania's higher-paying sectors offset continued manufacturing losses.

- During 2005, Pennsylvania created approximately 60,000 net new jobs, the largest annual increase since 2000. Forty percent of the new jobs had salaries above the state average (see Chart 1). Salaries in the business service sector averaged over \$53,000, almost 30 percent more than the state average.
- Job gains were also significant in the state's education and health services, and leisure and hospitality sectors, which collectively represented two thirds of net new jobs. These new jobs reflect in-migration from neighboring areas, the growing health needs of aging baby boomers and increased tourism to the state. Average salaries in these growth sectors tended to be below the state average.

Pennsylvania's housing appreciation remained strong, while the pace of sales activity eased.

- Pennsylvania's housing boom has been less pronounced than other Mid-Atlantic states. Nevertheless, Pennsylvania has consistently recorded double-digit home price appreciation since mid-2004; the state's fourth



quarter 2005 rate of 12.4 percent was slightly below its cyclical peak reached earlier in the year.¹

- Appreciation in **Harrisburg, Scranton** and **York** reached cyclical highs at year-end 2005. Conversely, in several areas, including **Erie, Pittsburgh**, and Lebanon, home appreciation rates eased and were less than one-half the national average.
- Appreciation remained higher in the eastern Pennsylvania housing markets of Philadelphia and Allentown (and above the U.S. average); however, the inventory of unsold homes has risen, while listing periods have increased. A slowdown in home sales and higher inventory levels could portend an easing in appreciation rates in 2006.
- Firm employment conditions should help support the state's housing markets in this cycle, in contrast to Pennsylvania's 1980s and 1990s housing market downturns (see Chart 2).

Pennsylvania's FDIC-insured institutions reported stable profitability in 2005, but the interest rate environment remains a challenge.

- Profitability was steady in 2005 reflecting moderate loan growth and benign credit quality conditions. However, bank net interest margins (NIMs) have faced headwinds in the flat yield curve environment.
- Several interest rate events have helped shape state margin trends in recent years (see Chart 3). During the 2001 recession, NIMs widened as short-term interest rates declined at a pace not seen in 20 years, helping banks to reduce funding costs. Subsequently, long-term rates dropped to 50-year lows, spurring a record residential mortgage refinancing wave and pushing bank asset yields and NIMs to near record lows. Margins have improved somewhat since the refinancing wave, but the flat and at times inverted yield curve has hindered margin expansion.
- Residential lenders, which compose a significant share of Pennsylvania banks (34 percent compared with 10 percent nationally), typically rely heavily on the spread between long- and short-term interest rates. As a result, these institutions are unlikely to experience margin expansion in a flat yield curve environment. During 2005, a relatively flat yield curve period, only one-quarter of Pennsylvania's residential lenders reported widening of NIMs compared with almost one-half of the state's other institutions.

Funding costs among Pennsylvania's banks exceed the national level.

- Pennsylvania's median cost of funds has increased steadily in recent years in response to higher short-term interest rates (see Chart 4).
- Funding costs among Pennsylvania banks typically exceed the national rate in part due to a higher concentration of long-term CDs (see Chart 5). Long-term CDs typically have higher yields than non-maturity deposits such as savings and money market accounts.
- The higher concentration of long-term CDs reflects, in part, the state's significant share of residential lenders, who typically attempt to obtain long-term deposits to match more closely long-term residential loans. The higher concentration also may reflect the state's larger share of residents 65 or older (15.2 percent) compared with the nation (12.5 percent). Some senior citizens may be more apt to rely on the safety and yield of insured CDs to supplement income during retirement years.

Chart 4: Funding Costs Increased in 2005 Following the Rise in Short-term Rates

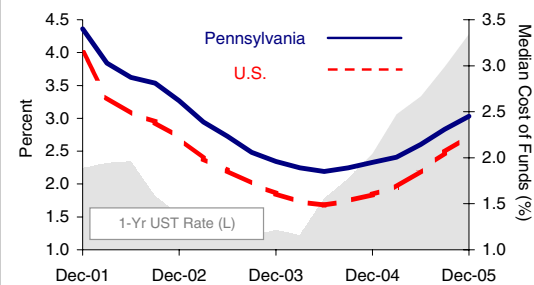
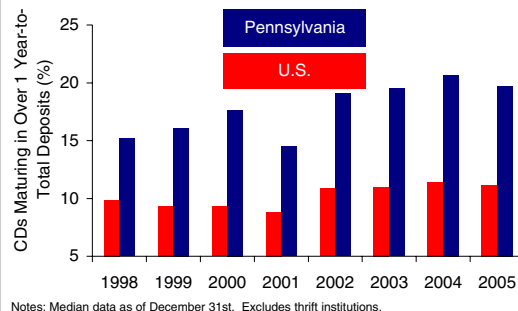


Chart 5: Pennsylvania's Banks Rely More Heavily on Long-Term CDs



¹Office of Federal Housing Enterprise Oversight.

Pennsylvania at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.0%	1.1%	1.0%	0.6%	-0.5%
Manufacturing (12%)	-1.5%	-1.2%	-1.2%	-3.0%	-6.2%
Other (non-manufacturing) Goods-Producing (5%)	2.0%	2.1%	2.0%	1.6%	-1.3%
Private Service-Producing (70%)	1.4%	1.6%	1.5%	1.3%	0.4%
Government (13%)	0.2%	0.2%	-0.2%	-0.2%	0.9%
Unemployment Rate (% of labor force)	4.7	4.9	5.3	5.5	5.7

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	5.2%	6.6%	5.1%	2.7%
Single-Family Home Permits	14.8%	29.1%	-11.9%	8.3%	-2.4%
Multifamily Building Permits	62.5%	-39.8%	-52.0%	17.3%	30.8%
Existing Home Sales	-2.9%	8.5%	8.8%	13.0%	8.1%
Home Price Index	12.4%	12.0%	11.9%	10.8%	6.8%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	8.11	6.26	4.36	4.69	4.71

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	254	253	262	262	270
Total Assets (in millions)	383,699	381,961	330,979	330,979	297,075
New Institutions (# < 3 years)	13	11	9	9	10
Subchapter S Institutions	8	6	5	5	4

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.26	1.22	1.36	1.36	1.51
ALLL/Total Loans (median %)	1.04	1.05	1.11	1.11	1.14
ALLL/Noncurrent Loans (median multiple)	1.94	1.92	1.85	1.85	1.55
Net Loan Losses / Total Loans (median %)	0.02	0.02	0.06	0.06	0.09

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.61	9.59	9.37	9.37	9.02
Return on Assets (median %)	0.77	0.78	0.83	0.82	0.87
Pretax Return on Assets (median %)	0.97	1.08	1.08	1.09	1.17
Net Interest Margin (median %)	3.31	3.37	3.41	3.37	3.38
Yield on Earning Assets (median %)	5.76	5.64	5.34	5.27	5.55
Cost of Funding Earning Assets (median %)	2.45	2.31	1.95	1.90	2.16
Provisions to Avg. Assets (median %)	0.07	0.07	0.06	0.08	0.09
Noninterest Income to Avg. Assets (median %)	0.46	0.45	0.49	0.49	0.50
Overhead to Avg. Assets (median %)	2.60	2.57	2.58	2.52	2.51

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	63.2	63.2	61.4	61.4	59.3
Noncore Funding to Assets (median %)	20.9	20.4	19.2	19.2	18.3
Long-term Assets to Assets (median %, call filers)	38.7	37.3	40.0	40.0	39.2
Brokered Deposits (number of institutions)	60	57	45	45	43
Brokered Deposits to Assets (median % for those above)	2.0	1.6	1.3	1.3	1.2

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	43.6	44.2	46.8	46.8	47.6
Commercial Real Estate	153.0	157.6	153.4	153.4	146.9
Construction & Development	17.5	17.8	16.4	16.4	14.3
Multifamily Residential Real Estate	5.5	5.4	5.9	5.9	5.7
Nonresidential Real Estate	118.0	117.6	111.9	111.9	110.2
Residential Real Estate	297.2	290.3	292.7	292.7	296.6
Consumer	18.6	19.0	21.5	21.5	25.4
Agriculture	0.8	0.7	1.0	1.0	1.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	156	221,259	< \$250 million	133 (52.4%)
Pittsburgh, PA	62	56,557	\$250 million to \$1 billion	91 (35.8%)
Allentown-Bethlehem-Easton, PA-NJ	34	11,853	\$1 billion to \$10 billion	24 (9.4%)
Scranton--Wilkes-Barre, PA	25	9,937	> \$10 billion	6 (2.4%)
Harrisburg-Carlisle, PA	30	8,281		